

Sheryl (Sherry) L. Herauf
Director
Federal Regulatory Relations

1275 Pennsylvania Avenue, N.W., Suite 400
Washington, D.C. 20004
(202) 383-6424

PACIFIC  **TELESIS**
Group - Washington

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May 9, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

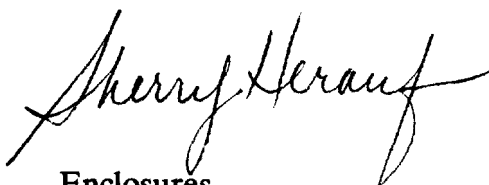
Dear Mr. Caton:

Re: *Rulemaking 8448 - Petition for Rulemaking to Amend Part 32 of the Commission's Rules, Uniform System of Accounts for Class A and B Telephone Companies to Increase the Dollar Limit for Expensing the Cost of Individual Items of Equipment*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of its "Reply Comments" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)	
)	
Petition for Rulemaking to Amend)	
Part 32 of the Commission's Rules)	
Uniform System of Accounts for)	RM 8448
Class A and Class B Telephone)	
Companies to Increase the Dollar)	
Limit for Expensing the Cost of)	
Individual Items of Equipment)	

REPLY COMMENTS OF PACIFIC BELL AND NEVADA BELL

Pacific Bell and Nevada Bell submit these reply comments in support of the Petition for Rulemaking ("Petition") of the United States Telephone Association ("USTA") filed March 1, 1994.¹ Pacific Bell and Nevada Bell filed comments in support of USTA's Petition.²

The comments in response to the Petition provide clear support for the rule change. All of the comments by local exchange carriers ("LECs") support USTA's position that

¹ USTA requests that the Commission initiate a rulemaking proceeding to amend its existing rules to increase the expense limit of certain items of equipment listed in Section 32.2000(a)(4) of the Commission's rules from \$500 to \$2000. In addition, USTA requests that the Commission permit exchange carriers to amortize the previously capitalized undepreciated investment for that equipment over a three-to-five year period beginning January 1, 1994 or January 1, 1995 at the exchange carrier's option.

² Comments of Pacific Bell and Nevada Bell, dated April 22, 1994.

administrative efficiencies will result from the rule change. Only MCI filed comments in opposition.³ The objections raised by MCI do not outweigh the benefits to be gained by granting the rule change.

MCI claims that there is no evidence to support the Petition. To the contrary, the Petition points out the administrative savings to carriers, which in turn will provide long term benefit to ratepayers. The LECs' comments corroborate that they anticipate administrative savings from the proposed rule change. The rule change presents an alternate means for LECs to recover the costs of equipment while saving ratepayers some administrative costs. That is good public policy.⁴ And, because any increase in expense is endogenous, the rule change would not result in higher rates. Moreover, the proposed rule change would support the Commission's policy direction under price cap regulation. By permitting LECs to expense equipment upon purchase instead of recovering the cost of the equipment over its useful life, LECs would have greater flexibility to meet increasing competition, which was a primary goal of the Commission in adopting Price Caps.⁵

³ Comments of MCI Telecommunications Corporation, dated April 22, 1994 ("MCI").

⁴ The cost of the assets under discussion will be recovered either through depreciation, if the equipment is capitalized, or if the Petition is granted, as expense.

⁵ Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. No. 87-313, Second Report and Order, 5 FCC Rcd 3786, 1990.

MCI also complains that the proposed rule change affects rates through the sharing mechanism. This objection belies MCI's misguided perception that sharing was intended as a ratemaking tool. To the contrary, the Commission established the sharing mechanism as a "backstop to adjust rates in the event that ... unanticipated errors in the price cap formula occur."⁶ The Commission should not permit what was intended as a safeguard to prevent LECs from effecting real savings in administrative and recordkeeping costs.

Finally, MCI's position that there is no competition for LEC services is no longer supportable. MCI itself announced that it is entering the local exchange service market through its new subsidiary, MCI Metro. MCI will offer bundled local and long distance service in direct competition with LECs.⁷ To advance their plan, MCI recently announced a trial in Indiana in which it will purchase local service from an independent telephone company and resell it along with interexchange service.⁸ MCI purposefully downplays the rapid pace of increasing competition

⁶ Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. No. 87-313, Second Report and Order, 5 FCC Rcd 3786, 1990, para. 120. Moreover in its current review of price caps, the Commission will be examining whether the sharing mechanism can be replaced by adjustments to the productivity factor or other aspects of the plan. Price Cap Performance Review for Local Exchange Carriers, CC Dkt. No. 94-1, Notice of Proposed Rulemaking, February 16, 1994, paras. 47-55.

⁷ "MCI Goes to 'War' to Promote Local Exchange Competition, Will Spend \$2 Billion Building Networks in 20 Cities", Telecommunications Reports, January 10, 1994, p. 1.

⁸ "MCI to Test Resale of Local Services in Indiana", Telecommunications Reports, March 28, 1994, p. 34.

in local exchange and access services. Its objection to the Petition is an obvious attempt to maintain the status quo so that it can benefit from any reduction in rates that might occur because of the sharing mechanism while it continues to build itself as a competitor to LECs in local services. Thus, the Commission should not give significant weight to MCI's objections.

The record in this proceeding will provide the Commission with sufficient basis for the proposed rule change. At the least, the Commission should grant the Petition and proceed with a rulemaking in which the proposed change can be further investigated. A rulemaking will present the opportunity to provide specific evidence of administrative savings that can result from the proposed rule change. In addition, the public

policy reasons in support of the change can be further discussed
and the negative effect claimed by MCI shown to be without merit.

Respectfully submitted,

PACIFIC BELL
NEVADA BELL

Lucille M. Mates

JAMES P. TUTHILL
LUCILLE M. MATES

140 New Montgomery St., Rm. 1526
San Francisco, California 94105
(415) 542-7654

JAMES L. WURTZ

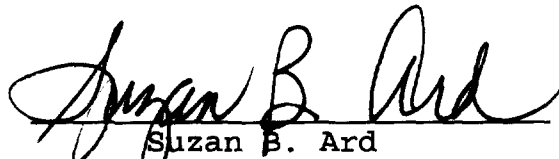
1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Their Attorneys

Date: May 9, 1994

CERTIFICATE OF SERVICE

I, Suzan B. Ard, do hereby certify that copies of the foregoing document were served to the parties listed below on May 9, 1994 by first class United States mail, postage prepaid.


Suzan B. Ard

Linda Kent
Associate General Counsel
USTA
1401 H Street, NW, Suite 6000
Washington, DC 20005-2136

M. Robert Sutherland
Sidney J. White, Jr.
BellSouth Telecommunications,
4300 Southern Bell Center
675 West Peachtree Street, NE
Atlanta, GA 30375

Donald F. Evans
Director, Federal Regulatory
Affairs
MCI Telecommunications
1801 Pennsylvania Ave., NW
Washington, DC 20006

Gregory L. Cannon
U S West Communications, Inc.
Suite 700
1020 19th Street, NW
Washington, DC 20036

Carolyn C. Hill
ALLTEL Service Corporation
1710 Rhode Island Ave.
Suite 1000
Washington, DC 20554

Lawrence W. Katz
The Bell Atlantic Telephone
Companies
1710 H Street, NW
Washington, DC 20006

Barbara J. Kern
Ameritech Operating Companies
2000 W Ameritech Center Drive
4H88
Hoffman Estates, IL 60196-1025